

AB 1801 Floor Report

**June 27, 2006
SENATE REPUBLICAN
FISCAL OFFICE**



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Executive Summary

AB 1801, as amended by AB 1811 (AB 1801) proposes spending \$189.4 billion, of which \$101.3 billion is General Fund. Of this amount, almost \$2.9 billion is proposed for debt relief. While AB 1801 carries a \$2 billion reserve in 2006-07, absent a \$9.5 billion carryover from the prior year, expenditures exceed revenues by \$7 billion General Fund.

Total General Fund spending (one-time and ongoing) is **up \$11 billion from the level approved in the 2005 Budget Act**, a 12.2-percent year-over-year increase. When accounting for the \$2.9 billion in debt payments, the year-over-year increase in programmatic spending is 9 percent. Year-over-year General Fund revenues are projected to be up \$9.9 billion (11.7 percent) when compared to revenues estimated for the 2005 Budget Act.

The May Revision improved upon the Governor's Budget, and it contained a number of features that are consistent with the goals of the Senate Republicans. AB 1801 *retained a number of those key features, while adding some components that increase ongoing expenditures.*

The table below provides some detail of the year-over-year changes in state spending contained in AB 1801. As is evident, the greatest differences came in the areas of Education (\$4.45 billion), Health and Human Services (\$2.1 billion), and Business, Transportation, and Housing (\$1.3 billion).

Comparison of 2005 Budget Act and AB 1801				
Expenditures by Agency				
(Dollars in millions)				
<u>AGENCY</u>	<u>2005 Budget</u>	<u>AB 1801</u>	<u>Difference</u>	<u>% Change</u>
Legislative, Judicial, and Executive	\$3,147	\$3,429	\$282	8.96%
State and Consumer Services	\$578	577	-\$1	-0.19%
Business, Transportation, and Housing	\$1,714	3,030	\$1,316	76.74%
Resources	\$1,388	1,828	\$439	31.65%
CA Environmental Protection Agency	\$78	88	\$10	12.68%
Health and Human Services	\$27,260	29,346	\$2,086	7.65%
Corrections and Rehabilitation	\$7,658	8,751	\$1,093	14.27%
K thru 12 Education	\$36,059	40,511	\$4,453	12.35%
Higher Education-Community Colleges	\$3,678	4,339	\$661	17.96%
Higher Education-UC, CSU and Other	\$6,480	7,031	\$551	8.50%
Labor and Workforce Development Agency	\$89	101	\$12	13.15%
General Administration	\$447	770	\$323	72.32%
Tax Relief	\$664	679	\$15	2.21%
Local Government Subventions	\$1,346	308	-\$1,038	-77.11%
Debt Service	\$107	186	\$80	75.02%
Statewide Expenditures	\$384	925	\$541	140.70%
Augmentation for Employee Compensation	\$59	299	\$241	410.41%
Statewide Savings	-\$843	-873	-\$30	3.59%
Total	\$90,294	\$101,325	\$11,031	12.22%

A considerable portion of these increases in expenditures are the result of formula-driven programs. However, there are numerous budget policy choices represented in these expenditure increases as well.

Significant highlights of AB 1801 include:

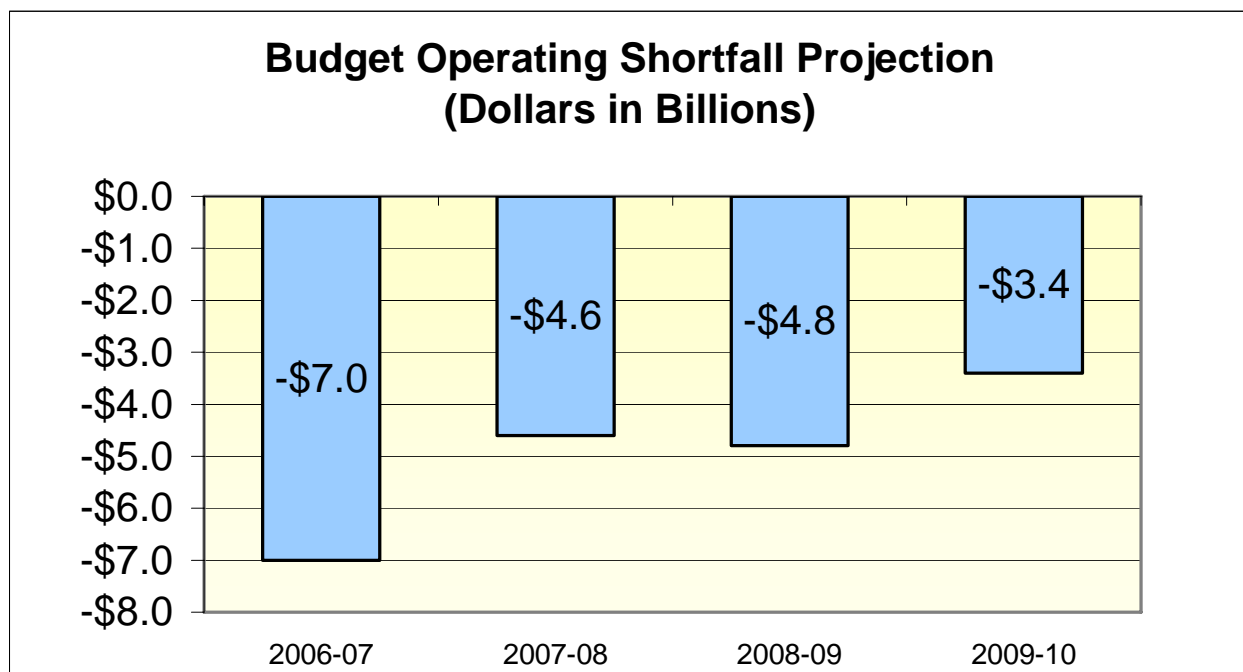
- Includes approximately \$2.9 billion to pay down \$20.7 billion in existing outstanding long-term debt obligations, including \$1.4 billion for Proposition 42 loans, \$472 million for Economic Recovery Bonds, \$325 million for special fund loans, and \$170 million for non-education mandate payments.
- FULLY funds Proposition 42 transfer at \$1.4 billion, and, as mentioned above, provides an additional \$1.4 billion in Proposition 42 loan payments, reducing the outstanding Proposition 42 loan balance to \$711 million.
- Provides \$350 million for equalization funding for K-12 schools (full equalization would require an estimated \$460 million), with the commitment to FULLY Fund the remaining portion of K-12 equalization funding in 2007-08.
- Provides full funding for Community College equalization (\$160 million).
- It eliminates virtually all of the almost \$1 billion in prior year education mandate debt.
- Provides a total of \$358.5 million General Fund for non-education mandate costs, including \$232.5 million for 2005-06 and 2006-07 mandate costs.
- Provides \$188.6 million in new public safety funding, including \$38 million for COPs and Juvenile Justice, \$35 million for Booking Fee Subventions and \$20 million for Cal-MMET.
- Includes funding for 50 new judgeships in 2006-07 to recognize the expanding workload of the courts.
- Includes \$430.5 million dollars for various inmate health care proposals, including \$100 million for the unspecified costs of the Receiver recently appointed to oversee health care.
- Includes \$90 million in federal block grant funds for a CalWORKs improvement program. This funding would be used by counties to implement strategies to improve federal participation rates through employment services, engagement, and case management of clients.
- Spends an additional \$100 million General Fund within child welfare services and foster care to replace TANF funds shifted to CalWORKs.
- Includes \$75 million for significant program expansions within the Child Welfare Services arena, including funding for additional social workers, adoption workers, and county expansion for the transitional housing for foster youth program.
- Includes \$120 million for the Substance Abuse and Crime Prevention Act (SACPA), also known as Proposition 36. Also includes \$25 million for the Substance Abuse Offender Treatment Program, which will expand reimbursable program services to include residential treatment, drug testing, probation costs, use of a drug court model, and narcotic replacement therapy.

- Provides an \$11 million augmentation for UC research (including \$6 million for the UC Labor Institute), and a \$24 million augmentation for “outreach” activities at UC and CSU (where \$57 million is already provided for outreach within existing resources).
- Reduces community college fees from \$26 to \$20 per credit-hour, reducing eligibility for federal financial aid by about \$20 million.
- Does not include the Administration proposal to conform California state income tax law to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.
- Continues to extend the 90-day use tax exemption for specified vehicles, vessels, and aircraft to one year for fiscal year 2006-07.

Same as it Ever Was: The Need for Structural Reforms Remains

AB 1801 reduces some outstanding budgetary borrowing. However, it leaves considerable budget balancing work to future endeavors, relying upon carryover balances to continue expenditures at a rate greater than General Fund revenues will support. It does not propose significant programmatic reforms or reductions, and General Fund expenditures still rise significantly year-over-year beyond the level of General Fund revenue growth, resulting in a projected \$4.6 billion operating deficit for 2007-08.

Indeed, the latest estimates provided by the Legislative Analyst Office indicate that without meaningful structural reform the state will have operating deficits between \$3.4 and \$7 billion over the next several years.



Outstanding Budget Debt

Existing Debt Source	Outstanding (Prior to GB)	Proposed Changes	Outstanding after 2006-07
(Dollars in millions)			
Economic Recovery Bonds	\$8,650	-\$472.0	\$8,178
Tobacco Securitization Bonds	\$4,800		\$4,800
Other Bonds	\$1,100	-\$172.0	\$928
Special Fund Loans	\$1,384	-\$325.4	\$1,059
Proposition 42 Loans	\$2,126	-\$1,415.0	\$711
Non-education mandate pmts	\$1,245	-\$170.0	\$1,075
Prop 98 Settle-up	\$1,400	-\$300.0	\$1,100
Totals, Existing Debt	\$20,705	-\$2,854	\$17,851
New Debt Obligation			
CTA Lawsuit Settlement (New Debt)		\$2,900	\$2,900
Totals, All Debt		\$46	\$20,751

Debt Reduction. The May Revision proposed the transfer of \$1 billion General Fund to the Deficit Recovery Bond Retirement Sinking Fund to accelerate the repayment of the Economic Recovery Bonds (ERB), which was authorized by voters via Proposition 58. In lieu of ERB prepayment, AB 1801 appropriates \$1 billion to prepay or repay current and accumulated General Fund obligations, including:

- \$109 million for 2006-07 non-education mandate costs.
- \$17 million for 2006-07 Peace Officer Bill of Rights mandate costs.
- \$755 million to pay off a significant portion of Proposition 42 loans.
- \$87 million to prepay 2007-08 obligations related to the 15-year payment plan of mandate costs accumulated prior to 2004-05.
- \$32 million for General Obligation bond debt.

The decision to fund 2006-07 costs in 2006-07 (first two bullets) does not reduce outstanding debt obligations. As a result, the amount of funding being used to reduce outstanding debt is reduced by \$126 million to \$874 million.

As is evident in the table above, AB 1801 will pay down over \$2.8 billion in outstanding budgetary borrowing. However, as is also evident above, the Administration's proposal to settle the CTA lawsuit results in an additional \$2.9 billion in budget debt.

Revenue and Taxes

Health Savings Account Conformity. This budget package does not include the Administration's proposal to conform California state income tax law to the provisions of Section 1201 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 108-173). Without conformity, taxpayers who have converted their Archer Medical Savings Accounts into Health Savings Accounts may be subject to tax and penalties under state, but not federal, income tax laws. The Administration's trailer bill proposal would have provided relief for those tax payers from tax and penalties in taxable years beginning on or after January 1, 2004, and would have resulted in reduced General Fund revenues of \$8 million in 2006-07. This conformity should be included in the 2006-07 budget package.

Use Tax Exemption (Vehicles, Vessels, and Aircraft). AB 1801 estimates additional use tax revenue of \$28 million in 2006-07 related to extending the 90-day use tax exemption for specified vehicles, vessels, and aircraft to one year for fiscal year 2006-07.

Prior to October 1, 2004, out-of-state purchases by California residents were subject to the use tax if brought in to California within 90 days of purchase. On October 1, 2004, Chapter 226, Statutes of 2004 (SB 1100) temporarily increased—from 90 days to one year (through June 30, 2006)—the period that a vessel, vehicle, or aircraft purchased by a California resident must be kept out of California following an out-of-state purchase in order to be exempted from the use tax.

According to the Legislative Analyst's Office, the law change has resulted in a substantial decline in out-of-state usage exemptions and a corresponding increase in the amount of taxable transactions. It is estimated that the combined impact of Chapter 226 in 2005-06 on Sales and Use Tax (SUT) revenues is a increase of about \$45 million (\$28 million General Fund and \$17 million to state special funds and localities). These amounts are less than the original estimates of \$55 million for all funds (\$35 million General Fund). This estimated difference is related to revenues from aircraft sales. Specifically, BOE had anticipated that \$11 million in additional revenues would be collected from the SUT on aircraft, but the initial data show no identifiable increase from this category.

However, it is possible that the LAO report relies too heavily on information on use tax collections for purchases, while minimizing the impact of reduced economic activity on yachting related industries. While the report speculates on the impact of other businesses, it provides no hard analysis of the impact on (1) lost slip rental revenue and the collection of property taxes, (2) lost jobs in related industries such as marinas, boat yards, publishers, marine equipment suppliers, and boat suppliers, or (3) fuel sales and taxes, personal income taxes, and business income taxes.

Teacher Tax Credit. AB 1801 reflects the continued suspension of the "teacher tax credit" through January 1, 2007. At this time, a definitive analysis has not been completed to demonstrate that this credit was effective in assuring teacher retention in the profession. Projected revenue associated with this extended suspension is approximately \$210 million in 2006-07.

Education

Proposition 98 funding exceeds \$55 billion. Because of the surge in General Fund revenues, the 2005-06 Proposition 98 guarantee of funding for education has risen from \$50 billion in the 2005-06 budget act to about \$52 billion at the May Revision. The \$2 billion current year augmentation will be used mostly to satisfy prior year mandate claims, provide a one-time discretionary block grant, and provide a one-time arts/music/physical education block grant (see staff analysis of the education trailer bill, AB 1802, for more detail). The 2005-06 increase will carry forward into the budget year, raising the 2006-07 guarantee to over \$55.1 billion. The Legislative Analyst estimates that 2006-07 Proposition 98 per-pupil funding will exceed \$8,200, and that per-pupil funding from all sources (including federal funds, lottery funds, etc.) will exceed \$11,200.

One-time discretionary block grant allocated mostly to school site councils. This budget, through its education trailer bill, directs \$533.5 million in 2005-06 one-time funding for a block grant which will be allocated 75% to local school site councils and 25% to school districts (school boards / superintendents). Allocating the bulk of the funds to the school site level will render them unavailable to address more urgent district-level priorities, such as repayment of state bailout loans, reduction of unfunded non-pension retiree liabilities, etc.

Over \$3 billion in ongoing discretionary funding offers schools an opportunity to right themselves. Despite its failure to optimally focus the block grant funding discussed above, this budget does significantly increase schools' general purpose funding. Over \$2.6 billion is provided for a 5.92% COLA -- the highest in 20 years. These funds, along with over \$300 million in deficit factor reduction funding and \$350 million in equalization funding, can be used by school districts for whatever purposes they deem necessary or desirable. These funds present a unique opportunity for districts that are burdened with unfunded liabilities to address these liabilities. ***If they decline this opportunity and instead use these funds to expand salaries and benefits, they will likely return to Sacramento at some future date to ask the Legislature to fund their liabilities.***

Significant progress on K-12 revenue limit equalization. This measure provides a \$350 million augmentation for equalization, about three-quarters of the total needed to achieve full equalization (to the 90th percentile) of base K-12 revenue limits across the state. Another \$100 to \$125 million will be required in future years to achieve full equalization.

Categorical programs expanded. This measure contains a \$350 million augmentation for the **Economic Impact Aid** (EIA) categorical program, which provides grants focusing on poor and English language learner students. Total EIA funding will rise to over \$970 million. Associated trailer bill language allocates the funds based on the extent to which a district's per-pupil EIA rate falls below \$600. All districts with significant numbers of low-income and English learner students will benefit, with the Los Angeles Unified School District continuing to get the lion's share (about \$200 million of the \$970 million).

In addition, the budget provides \$200 million for a new categorical program to expand **counseling** services for students in grades 7-12. In recent years, districts have opted to reduce counseling and other peripheral services to make room in their budgets for salary augmentations. These new funds essentially backfill the loss of those counseling services.

Prop 98 lawsuit settlement to be dealt with separately. The May Revision proposed to settle a lawsuit which charged that the state owed about \$3 billion associated with the 2004-05 “oversuspension” of Proposition 98 (beyond the \$2 billion agreed to by the education coalition) and its resulting depressive effect on 2005-06 funding, despite assertions by the Legislative Analyst and the Department of Finance that the law does not require repayment of these funds. This measure **does not** provide funding for the Governor’s proposal to pay about \$3 billion over seven years to settle the suit, beginning with \$300 million in 2007-08, and continuing at \$450 million annually thereafter until the \$3 billion is fully paid. Presumably this proposal will be dealt with in separate legislation.

Higher Education

Equalization of Community College revenue limits finally achieved. This measure provides about \$160 million to **fully equalize** (to the 90th percentile) community college revenue limits. Separate legislation is pending that would ensure that these revenue limits remain equalized over time.

Ironically, Community College fee reduction harms needy students. The budget provides \$40 million (half-year funding) to reduce community college fees from \$26 to \$20 per unit, effective in January 2007. Not only does this fee reduction fail to benefit needy students, whose fees are already waived by the Board of Governors, it actually harms them. Because the federal government uses a special Pell Grant schedule for states with extremely low fees (California is the only state that falls into this category), needy students will lose about \$20 million in Pell Grant revenue as fees fall below the \$26 level.

Per-student funding boosted at UC and CSU. Amendments to the budget bill add over \$26.5 million to increase per-student general purpose (“marginal cost”) funding at UC (\$9.3 million) and CSU (\$17.2 million). The justification for this discretionary augmentation is unclear, given that 1) current law does not require it, 2) it was not part of the Governor’s “compact” with UC and CSU, and 3) it will further exacerbate the extent to which state General Fund expenditures exceed General Fund revenues.

UC Labor Institute and “outreach” expanded. This budget provides an \$11 million augmentation for UC research (including \$6 million for the UC Labor Institute), and a \$24 million augmentation for “outreach” activities at UC and CSU (where \$57 million is already provided for outreach within existing resources).

Nursing education expanded. Finally, this measure provides over \$10.5 million to augment the budgets of UC, CSU, the Community Colleges, and the Student Aid Commission for a variety of program expansions, all geared toward increasing the number of nursing students and faculty to meet California’s nursing shortage.

Health and Human Services Overview

For the 2006-07 fiscal year, AB 1801 proposes total expenditures of \$74.5 billion from all fund sources for Health and Human Services Agency budgets. General Fund expenditures for Health and Human Services are projected to be \$29.3 billion, which represents ***an increase of \$2.3 billion General Fund*** (or 8.5 percent) over the 2005 Budget Act. This budget will increase the number of personnel years (new state employees) for Health and Human Services departments from 31,141 to 31,825, which is an increase of 684 personnel years.

AB 1801 proposes total expenditures for Health and Human Services that are \$454 million (\$205 million General Fund) higher than the Governor's May Revision. This budget largely reflects Democrat priorities for spending in the Health and Human Services program area, and it continues to set expenditures at a level that cannot be sustained without new revenue increases in the future. ***The lack of major programmatic reforms to contain costs and reduce spending on these public health and welfare programs continues to be a serious threat to the state's fiscal health in both the short and long term.***

Health

Pandemic Flu "Surge" Preparedness. AB 1801 provides \$214 million (\$180 million General Fund) to be utilized by the Department of Health Services and Emergency Medical Services Authority to fill gaps in the California health care system's patient care capacity. A human pandemic caused by the "bird flu" (H5N1) is by no means inevitable. Many researchers doubt it will ever happen. The virus does not infect people easily, and those who do contract it almost never spread it to other humans. Despite the low risk, California ought to take reasonable steps to prepare for the possibility. Therefore, these funds will be used to purchase a variety of supplies (such as hospital beds and related equipment, ventilators, masks, antiviral medicine, and mobile field hospitals). If the pandemic flu does not occur this amount of funding will be far too much, and if it does occur it will be far too little.

AB 3632 Mandate (Services to Handicapped and SED Pupils). AB 1801 provides \$118 million in the Department of Mental Health budget for mandated costs associated with these services (\$66 million for prior year mandated costs and \$52 million for partial budget year costs). The Federal Individuals with Disabilities Education Act (IDEA) requires states to guarantee disabled students the right to receive a free and appropriate public education that emphasizes special education and related services, which may include mental health services. This federal requirement on the state and local education agencies is ***a federal mandate***. However, state legislation enacted in the mid-1980s (AB 3632) shifted the responsibility for mental health-related services to special education students from schools to counties, and thereby ***created a reimbursable state mandate*** for which reimbursement claims exceed \$140 million per year.

Increases Rates in Work Programs for Disabled. AB 1801 includes \$42 million (\$30 million General Fund) in the Department of Developmental Disabilities budget to enhance wages for direct care staff in Day Programs and Work Activity Programs, and to provide a 24 percent rate increase for Supported Employment Programs. In addition, these funds will provide for increased job placement fees (from \$1,000 to \$2,000) and increase rates by 24 percent for job coaching within the Department of Rehabilitation. This increase is an ***augmentation*** to the

Governor's \$68.3 million (\$46.6 million General Fund) proposal that increased rates for all providers by 3 percent.

Medi-Cal Induced Abortions. AB 1801 includes approximately \$49 million General Fund to pay for abortions. Based on 2003-04 data, these funds will provide for over 100,000 abortions, and over 1,870 women will have more than one state funded abortion in the same year.

West Nile Virus. AB 1801 contains \$9 million General Fund to be allocated by the Department of Health Services to local mosquito and vector control agencies to supplement resources for local mosquito control efforts to mitigate the threat of West Nile Virus transmission.

Human Services

CalWORKs

TANF Reauthorization. AB 1801 includes a number of proposals intended to address the impact of the Federal Deficit Reduction Act of 2005. These proposals are as follows:

- **\$140 million to Counties.** Augment the state's single allocation an additional \$140 million for county CalWORKs programs. Counties use this funding for eligibility determination activities, child care, transportation, job club, and basic employment services.
- **\$100 million General Fund Backfill to Replace Federal TANF Funds Restored to CalWORKs.** TANF resources will be shifted out of Child Welfare Services and restored to the CalWORKs program. This adjustment requires a backfill of \$100 million General Fund.
- **\$90 million for a CalWORKs Improvement Program.** This funding would be used by counties to implement strategies to improve federal participation rates through employment services, engagement, and case management of clients. This funding would be used to provide support to counties for early engagement into the program, prevention of sanctions, education and training programs, all with the intention of increasing the state's work participation rate.
- **County Accountability.** Strengthens the 50 percent county share of the federal penalty by requiring counties to backfill their share of any penalty and adopt a new planning requirement to tie activities to outcome improvement.
- **Pay for Performance.** Reinstates the Pay for Performance program originally proposed in 2005-06 and delayed in the Governor's January budget. Included in the budget is a set-aside of TANF Block Grant funds in 2006-07 for allocation to counties in 2007-08 who meet specific CalWORKs program outcomes.
- **\$17.2 million in CalWORKs Grant Savings.** The reforms noted above will result in additional participation and client earnings, which would likely reduce grant costs.

- **\$9 million for CalWORKs programs in the Community Colleges.** This funding would be used to increase work study slots at community colleges. Work study is real work that counts under federal law.
- **\$4 million to Improve CalWORKs Data and Reporting.** Includes \$4 million to develop and use all data sources to better articulate best practices and areas of improvement.
- **Shift Exempt Cases.** Proposes an implementation date of April 1, 2007 for the shift of Exempt cases to be funded through non-maintenance-of-effort General Fund. This policy shift is intended to help the state meet the federal work participation rate. Creation of such a program would reduce the risk of a federal penalty for failure to meet the federal work participation rate.

In-Home Supportive Services (IHSS)

IHSS Share-of-Cost. AB 1801 includes \$41.2 million General Fund to allow IHSS recipients that currently do not have a share of cost within the IHSS program to receive a supplemental payment to be used towards any required share of cost they may be required to pay under Medi-Cal standards.

Other Social Service Programs

Supplemental Security Income/State Supplementary Payment (SSI/SSP) - Restorations. AB 1801 would rescind the 2005 Budget Act agreement to delay, by three months, the federal Supplemental Security Income cost-of-living adjustment, which will result in increased expenditures of \$42.3 million General Fund in 2006-07.

- **Deeming Period Ends for Legal Noncitizens.** AB 1801 rejects the Administration's proposal to extend, from 10 to 15 years, the period for which a sponsor's income is counted for purposes of determining financial eligibility for the SSI/SSP program. General Fund expenditures of \$12 million are included in AB 1801 for the additional beneficiaries that would now be eligible, and costs are projected to grow to over \$40 million General Fund in 2007-08.

Community Care Licensing.

- AB 1801 includes \$6.2 million and 80 positions to address a statutory requirement for licensing visits every five years for facilities licensed by the state. This proposal includes increasing random visits from 10 percent to 20 percent to account for the five year visitation requirement. Additionally, the department will re-establish an extensive training academy that is intended to enhance the quality of licensed analysts and increase compliance consistently throughout the state.
- Budget trailer bill continues to suspend, for two years, a statutory exemption that allowed family day care providers, persons operating or managing a certified family home, and volunteers at child care facilities to not pay fees for the statutorily-required fingerprinting review process. General Fund fee revenue of \$1.2 million is included in AB 1801.

Child Welfare Services. AB 1801 includes \$75 million for significant program expansions within the Child Welfare Services arena. Proposals are as follows:

- \$50 million to decrease caseloads for social workers. Current caseloads are above the recommended levels and little progress has been made in recent years to decrease the number of cases per social worker.
- \$25.5 million for the state's new Title IV-E Child Welfare Waiver Demonstration Program. The Waiver will allow the state flexible use of federal and state foster care funds by utilizing a federal capped allocation model over a five year period. County participation is optional, and up to 20 counties can choose to participate.
- \$16.5 million for additional adoptions caseworkers. This augmentation is intended to improve permanency outcomes via adoption and increase foster care exits, both of which would help the state in meeting federal outcome standards that must be met or the state could face significant federal penalties.
- \$8 million for the Kinship Guardianship Assistance Payment Program (Kin-GAP) rate parity with foster care, and to expand Kin-GAP to probationary youth. The annual cost of this augmentation will be \$16 million.
- \$6.8 million for the Transitional Housing for Foster Youth program. The augmentation would expand the program to additional counties and the budget trailer bill would eliminate the county share-of-cost requirement for participation in the Transitional Housing Placement Program. Counties currently have a 60 percent SOC for the THPP services provided to children 18 to 24 years old.
- \$5.7 million to fund all eligible foster youth through the Chafee Scholarship program. This augmentation would provide sufficient funding for all eligible youth to receive some level of grant funding.
- \$3 million to expand Dependency Drug Courts to additional counties. Dependency drug courts provide intensive substance abuse treatment along with close court supervision to parents who are involved in dependency court cases.

Department of Child Support Services

Child Support Enhancement Funding. AB 1801 provides \$12 million for allocation among local child support agencies to improve overall collections performance.

Transitional Arrearage Augmentation. AB 1801 provides \$28.5 million to address outstanding child support arrears obligations due to a payment processing change implemented by the state. The state would be able to make a one month payment on behalf of affected non-custodial parents (NCPs) in 2006-07 to clear their arrearage balances but would require the NCPs to repay these obligations upon termination of their child support orders.

Department of Rehabilitation

Supported Employment Program and Work Activity Program Rate Increase. AB 1801 includes \$7.1 million (\$5.6 million General Fund) to increase the job coaching hourly rate above the three percent increase proposed in the Governor's Budget, and to increase the placement payment for successful employment from \$1,000 to \$2,000.

Department of Alcohol and Drug Programs

Proposition 36. AB 1801 includes \$120 million for the Substance Abuse and Crime Prevention Act (SACPA), also known as Proposition 36, which provides drug treatment instead of incarceration for certain first or second time non-violent adult drug offenders. The Administration and the Legislature will now determine the appropriate level of funding through the annual budget process. AB 1801 also includes \$25 million for the Substance Abuse Offender Treatment Program, which will expand reimbursable program services to include residential treatment, drug testing, probation costs, use of a drug court model, and narcotic replacement therapy.

Methamphetamine Prevention Program. AB 1801 includes \$10 million to establish a methamphetamine prevention program, which would include a public education and awareness campaign, grants to local collaboratives, strategies for media use and would require a plan from the department on ways to reduce the use of methamphetamine statewide.

Drug Medi-Cal Provider Rates. AB 1801 includes \$6 million to increase provider rates within the Drug Medi-Cal program.

Comprehensive Drug Court Implementation. AB 1801 includes \$4 million to expand the Adult (Felony) Drug Court program. The Governor's Budget provides \$16.7 million for the program.

Transportation

Proposition 42 fully funded. Enacted by the voters in the March 2002 election, Proposition 42 amended the State Constitution to permanently dedicate sales taxes on gasoline for transportation projects. Specifically, the Proposition requires the transfer of gasoline sales tax revenues from the General Fund to a newly created Transportation Investment Fund (TIF). AB 1801 proposes to fully fund Proposition 42 at \$1.419 billion, and allocates the funds pursuant to existing law as follows:

- \$678 million to the Traffic Congestion Relief Fund (TCRF);
- \$593 million to the State Transportation Investment Program (STIP) ; and
- \$148 million to the Public Transportation Account (PTA).

Proposition 42 Repayment. AB 1801 funds the repayment of Proposition 42 in 2006-07 at \$1.4 billion. This is \$495 million above the Administration's proposal of \$920 million. The \$1.4 billion includes the redirection of \$200 million in gas tax spillover from the General Fund that the Administration proposed to be directed to the new Transportation Debt Service Fund for debt payments on existing and new transportation bonds. The repayment will be allocated as follows: \$440 million for STIP, \$440 million for local streets and roads, \$220 million for PTA, and \$315 million for TCRP projects. The loan balance pursuant to AB 1801 would be reduced to approximately \$711 million.

The table below displays the funding and suspension history of Proposition 42 since implementation in 2003-04.

Proposition 42 Funds (Dollars in Millions)		
<u>Fiscal year</u>	<u>Amount to be Transferred</u>	<u>Amount Suspended</u>
2003-04	\$1,157	\$868
2004-05	1,258	1,258
2005-06	1,355	0
2006-07	1,419	0
Total	\$5,189	\$2,126

In total, \$2.1 billion or approximately 41 percent of voter-approved Proposition 42 transportation funds have been retained in the General Fund and used for non-transportation purposes. The restoration of funding provided in AB 1801 would reduce this percentage to 14 percent.

Public Transportation Account (PTA) “Spillover” Funds. Current law contains an arcane formula that requires the General Fund to transfer sales tax revenues to the PTA under specified conditions. This transfer is often triggered during periods of high gasoline prices and is used to fund rail and mass transit projects. Of the \$668 million in spillover revenues, the Administration proposed to allocate \$125 million for the Bay Area Toll Bridge Seismic Retrofit project and shift \$543 million to a new fund, **Transportation Debt Service Fund**, which would be dedicated to paying a portion of the debt service on existing and new transportation bonds. The General Fund will pay the remaining debt service. This proposal would, in effect, divert monies from public transit projects to repayment of debt service. Based on current forecasts, this could provide \$4.1 billion through 2015-16.

AB 1801 rejects this proposal, with the exception of the toll bridge retrofit, and allocates the \$668 million in spillover funds for 2006-07 as the table below displays.

2006-07 Spillover Allocation	
(\$ in millions)	
Repayment of Proposition 42	\$200
Bay Area Toll Bridge Seismic Retrofit	\$125
Agricultural Industries Transportation Services	\$20
High-Speed Rail	\$13
State Transportation Account	\$248
Public Transportation Account	\$62
Total	\$668

Repayment of Transportation Loans from Tribal Gaming Bonds Delayed. Between fiscal years 2001-02 and 2004-05, the General Fund borrowed a total of \$3.667 billion from transportation, including \$1.556 billion in loans from various transportation accounts, and \$2.126 billion from the 2003-04 and 2004-05 Proposition 42 suspensions.

For 2004-05, a total of \$1.397 billion was proposed to be repaid from a variety of funding sources, authorized by both the 2004 Budget Act and AB 687 (Chapter 91, Statutes of 2004) related to tribal gaming compacts. Specifically, the Budget Act authorizes repayment of \$183 million from a combination of General Fund and Public Transportation Account spillover revenues. Also, AB 687 proposes to repay \$1.214 billion from bond proceeds secured by tribal gaming revenues.

The 2005 Budget Act assumed that the bonds would be sold in the spring of 2006. Consistent with the Administration's proposal, AB 1801 proposes to shift \$849 million of the \$1.0 billion in tribal gaming expenditure authority from 2005-06 to 2006-07 to reflect the delay in receiving these revenues. Presently, the timing for the sale of bonds is still uncertain due to litigation that has been filed against the state. In addition, AB 1801 contains language that specifies that if the Tribal Gaming Bond is not issued by June 15, 2007, then the first \$10 million from the annual tribal gaming contribution for 2006-07 would be deposited in the PTA thus receiving repayment before the State Highway Account and Transportation Congestion Relief Fund.

High-Speed Rail. Chapter 71, Statutes of 2004 (SB 1169) delayed placing a \$9.95 billion general obligation bond measure (for a high-speed rail system) before the voters, until November 2006. Currently, AB 713 is proposing to further delay the general obligation bond measure until November 2008. However, AB 1801 includes expenditures of \$13 million and three new positions for High-Speed Rail, of which the funds would be used to complete a draft Environmental Impact Report, a financing plan, site specific environmental work, right-of-way acquisitions, and identification of necessary grade separations for rail corridors.

For the state to continue spending funds on a project that may not be before the voters until November 2008 does not seem prudent. Furthermore, this rail system would cost as much as \$21.2 billion, assuming a 30-year term at a financing rate of 5.75 percent. If ridership revenues are insufficient to cover the operating costs, this project could end up costing taxpayers millions of dollars in annual subsidies.

Public Safety

Public Safety Package. The Governor's Budget proposed \$58.6 million and the May Revision proposed \$142 million of funding for various public safety proposals. AB 1801 funds an additional \$188.6 million in public safety funding including a Legislative proposal for juvenile parolees.

Governor's Budget	Administration Proposed	AB 1801
Gang Suppression Enforcement Team	\$6,524,000	\$6,524,000
CA Methamphetamine Strategy Program	6,027,000	6,027,000
Sexual Assault Felony Enforcement Teams*	6,000,000	-
Booking Fee Subventions	40,000,000	35,000,000
Governor's Budget Total	\$58,551,000	\$47,551,000
May Revision		
CA Multi-jurisdictional Meth Enforcement Teams	\$20,000,000	\$20,000,000
Vertical Prosecution Grants	10,100,000	8,000,000
COPs	21,300,000	19,000,000
Juvenile Justice Crime Prevention Act	21,300,000	19,000,000
Mentally Ill Offender Crime Reduction Grants	50,000,000	45,000,000
Funding for Training for Deputies and Probation Officers	19,500,000	19,500,000
May Revision Total	\$142,200,000	\$130,500,000
Legislative Augmentations		
Juvenile Offender Challenge Grant		\$10,000,000
Central Coast Rural Crime Reduction Program		500,000
Grand Total	\$200,751,000	\$188,551,000

*Funding removed from budget and placed in SB 1128.

Judicial Branch (State Trial Court Funding). AB 1801 includes \$113.1 million for the growth factor for the trial courts. The Governor's Budget proposal to fund the appellate courts, the Supreme Court, and judicial compensation using a statutory growth factor methodology similar to the trial courts was rejected. SRL language was adopted specifying the methods to be used to allocate growth funding to the trial courts, and restricting the use of growth funding for Judicial Council priorities.

AB 1801 includes funding for 50 new judgeships. The governor had proposed a funding set-aside for 50 new judgeships in 2006-07, and an additional 50 each in 2007-08 and 2008-09.

AB 1801 also includes:

- \$18.7 million for security in trial court buildings to provide at least one screening station per court building.
- \$14.6 million for an 8.5 percent pay increase for judges.

- \$10 million for court interpreters to expand court interpreter service to civil cases and family court cases.
- \$3.3 million for information technology support and maintenance.
- Also includes funding for several new courthouses and the conversion of the Sisk Federal Courthouse into a state trial court facility in Fresno.

Department of Justice. AB 1801 includes \$2 million to address workload resulting from the expanded collections of DNA, palm prints and thumbprints pursuant to Proposition 69. AB 1801 also includes a fine increase of \$1 for every \$10 in fines to pay for Proposition 69 workload. This results in a \$7.3 million General Fund decrease in 2006-07 and a \$14.6 million General Fund decrease in 2007-08, and is consistent with the intent of Proposition 69 that DNA collection and identification funding be provided through fines.

AB 1801 also provides several General Fund augmentations including:

- \$5 million for the DOJ Armed Prohibited Persons System (APPS).
- \$3.1 million for Class Action workload specifically related to the Department of Corrections and Rehabilitation.
- \$2.8 million to replace radio communications infrastructure.
- \$1.3 million for the Special Crimes Unit.
- \$1.3 million to establish a new Supervising Deputy Attorney General classification.

California Highway Patrol. AB 1801 includes \$57.1 million for the first year of a five year project to replace the CHP Radio system. AB 1801 also includes \$30.5 million to add 240 officers, 32 supervising officers, and 38 support staff to support workload associated with the growth of population. The Budget also provides an increase of \$6.4 million to hire 173 staff to increase staffing in communications centers to address increased 9-1-1 calls from cell phones.

Department of Corrections and Rehabilitation. AB 1801 includes \$8.6 billion General Fund for support, local assistance, capital outlay for the Department of Corrections and Rehabilitation (DCR).

AB 1801 includes \$270.9 million General Fund to address adult population growth estimates. This includes \$21.9 million for local assistance costs for the costs of prosecuting crimes occurring in state prisons and the cost to house parole violators in local jails. \$13.5 million is included for juvenile population, even though the population continues to shrink.

AB 1801 also includes \$52.8 million for parole and inmate program expansions proposed by the Department. However, since the resignation of the Secretary of Corrections and his interim replacement, and the appointment of a new interim Secretary, it is not clear what this funding will now be used for. It should also be noted that the Department is redirecting millions of existing programming funding to cover budgetary shortfalls in health care, juvenile justice, and adult institutions, there are likely to be significant implementation difficulties in a department that already has difficulty implementing programs.

In order to address these concerns and other concerns about the “black hole” of Corrections funding, provisional language was added to AB 1801 restricting the funding provided to the use

specified by the Legislature. Additionally, the department had flexibility language to move money and even receive augmentations outside of the normal processes. This type of flexibility language was removed, with the exception of the new health care item because of concerns of the courts.

Major General Fund augmentations included in AB 1801 include:

- \$161.1 million related to previously negotiated compensation increases for CDC employees.
- \$54.5 million to increase the capacity of the training academy.
- \$7.2 million to address the requirements of *Rutherford v. Schwarzenegger* to improve the lifer parole hearing process.
- \$6.6 million to address court requirements for *Madrid v. Woodford*.
- \$4.8 million for racial integration as required by the *Garrison Johnson v. California* litigation.
- \$4.1 million to provide protective vests to all correctional staff.

Juvenile Justice Augmentations for *Farrell v. Hickman* (comprehensive lawsuit dealing with all aspects of conditions of confinement in the state's juvenile institutions).

- \$50.5 million for the Safety and Welfare Plan.
- \$21.4 million to address the health care remedial plan.
- \$14.8 million for the mental health remedial plan.
- \$12.5 million to conduct a space needs survey.
- \$1.3 million for legal costs.

Inmate Health Care

AB 1801 creates a standalone budget item for inmate health care, and transfers \$1.4 billion General Fund from the Department's main item, and also schedules an additional \$65.2 million from the main item for inmate health care. This is in response to the recent takeover of the CDCR health care system by a receiver appointed by the Federal Court. This was augmented by \$100 million to address increased costs related to the receiver, with the expectation that any additional costs will be addressed through a supplemental appropriations bill. For inmate health care AB 1801 includes:

- \$250.6 million for increased costs for medical contracts and medical guarding.
- \$38.5 million for construction of several mental health facilities at sites throughout the state, total costs will exceed \$600 million, and operational costs once completed in 2010-11 will exceed \$100 million per year.
- \$24.3 million for supervisory dental staff to meet the requirements of *Perez v. Hickman*.
- \$20.2 million for mental health staff to implement the requirements of court orders related to the *Coleman v. Schwarzenegger* litigation.

- \$15 million for pay enhancements for mental health staff as a result of *Coleman v. Schwarzenegger*.
- The population includes \$12.2 million for activations ordered by the *Coleman and Plata* courts.
- \$6.9 million for headquarters staff to meet the requirements of various court orders.
- \$1.3 million for court compliance related to death reviews, review of professional practices, and the employee discipline process.

General Government

Tourism. AB 1801 includes the Administration's proposal to provide \$7.3 million General Fund to the California Travel and Tourism Commission for statewide tourism marketing. Though it complies with existing statute, we are concerned with this appropriation because the tourism industry has not provided its matching share of \$25 million in each of the last three years. The tourism industry has indicated that it will be increasing its self-assessments to reach the \$25 million target, but that increase has not yet been implemented.

California Partnership for the San Joaquin Valley. AB 1801 includes \$5 million General Fund to support the Administration's eight-county public-private collaborative effort to study economic development opportunities, improve employment rates, reduce poverty rates, increase per capita income, increase education rates, and improve air and water quality. **However**, the Administration has not provided any specific information regarding what these resources will actually buy to reach the objectives identified in the Governor's Executive Order.

Auditors and Other Revenue Generating Positions. AB 1801 increases spending by \$7.5 million to fund 68.4 auditors, attorneys, and other positions at the Franchise Tax Board and the Board of Equalization. AB 1801 assumes revenues of \$66.2 million (\$24.4 million General Fund) in 2006-07 as a result of these augmentations. Most of these positions were proposed by the Administration and included in AB 1801 (\$5.9 million and 54.8 positions). In one instance, the conference committee augmented the Administration's proposal to expand the Retail Licensing Enforcement program by \$1.9 million and 18.3 positions to generate an additional \$12.4 million in revenue. However, if these positions remain vacant, are redirected to other functions, or fail to meet revenue recovery goals, AB 1801 could result in unrealized revenue assumptions.

Office of State Publishing. AB 1801 accepts the Administration's proposal to extend an exemption that allows departments to use outside contractors for their printing needs. This exemption requires departments to solicit bids from the Office of State Publishing when the project is expected to cost more than \$5,000.

Ready Return (FTB). AB 1801 takes a step in the right direction in that it does not include language authorizing the Franchise Tax Board to continue a controversial pilot program initiated in 2004-05 that sends pre-filled out tax forms to single tax-filers with no dependants.

Office of Emergency Services. AB 1801 does not include the creation of a separate Office of Homeland Security. AB 1801 does include \$450,000 for the California Innocence Protection

Program and youth emergency telephone referral program and \$1.1 million Victim Witness Fund for victims and witnesses for parole revocations.

AB 1801 also includes \$23.7 million for the costs of responding to and recovering from the federally declared disasters resulting from the winter storms in early 2006.

Gambling Control Commission. AB 1801 includes \$863,000 Special Deposit Fund for licensing and field inspection workload. AB 1801 does not include the \$803,000 proposed for auditing workload.

Military Department. AB 1801 includes \$3.9 million (\$900,000 General Fund) to establish a second Youth Change Program to serve at-risk high school students.

Veterans Affairs. AB 1801 shifts \$2.1 million from the Veterans' Farm and Home Building Fund to the General Fund because 25 positions no longer provide support to the Veteran's Farm and Home Program and instead provide general departmental support. No workload justification for keeping the positions was provided, and this is generally reflective of poor fiscal controls at the department. AB 1801 includes \$50,000 for the Department to consult with Veteran's Service Organization, but includes no funding for County Veteran's Service Officers.

Other major augmentations included in AB 1801 include:

- \$9.1 million to renovate the member services building at Yountville which was extensively damaged by a fire.
- \$5 million to open the Alzheimer/Dementia Unit at Yountville.
- \$1.3 million to bring the Intermediate Care Facility at Barstow to full capacity.
- \$1 million to establish a behavior wellness program.
- \$891,000 to raise the daily food rate to \$8 per day, consistent with the Sonoma Development Center.

Local Government

Mandates. After many years of legally deferring the payment of state mandates, the passage of Proposition 1A in November 2004 changed the law to require that if a mandate is not fully funded in the subsequent State budget, the mandate would be suspended. The proposition also required that the existing mandate debt (approximately \$1.2 billion) would be repaid to local governments over five years, beginning in 2006. That repayment period has subsequently been extended to fifteen years.

AB 1801 includes \$358.5 million General Fund for non-education mandate costs for fiscal years prior to and including 2005-06 and 2006-07 (not including the AB 3632 mandates), as follows:

- \$90.3 million to fund the balance of mandate claims submitted in 2005-06 (\$106 million total).

- \$109 million to fund estimated costs of existing mandate claims to be submitted in 2006-07.
- \$16.6 million to fund the 2005-06 mandate costs related to the Peace Officer's Procedural Bill of Rights mandate.
- \$16.6 million to fund the 2006-07 mandate costs related to the Peace Officer's Procedural Bill of Rights mandate.
- \$170 million to fund two installments of mandate "debt" (\$83 million for 2006-07 and \$86.9 million for 2007-08) that had accumulated prior to fiscal year 2004-05.
- \$44 million in savings related to desk and field audit recoupments will be recognized to offset past disallowable mandate payments.

AB 1801 also sets the fiscal policy for the state to fund mandate claims in the year in which the claims will be received. Budget year appropriations will be based on projected budget year claims amounts.

On a related issue, the May Revision proposed the repeal of the AB 3632 (mental health services for special needs students) mandates and the creation of a categorical program in 2006-07 (including \$50 million in the Mandates Commission item). The continuation of the AB 3632 mandate has been removed from the Mandates Commission budget and funded in the Department of Mental Health.

Resources, Environment and Energy

Fee Increases. AB 1801 and related trailer bill legislation could increase fees in the resources and environmental protection area by as much as \$17.2 million. These fee increases are proposed by both the Administration and the Legislature. Republicans generally oppose fee increases because such policies tend to impede economic development. These and other select topics are discussed below.

- **Telecommunications Bill of Rights, Telecom Fees.** AB 1801 proposes a fee increase of \$12.2 million to institute a consumer protection program, which ironically requires an additional fee on the very consumers it is supposed to help. The program would include a consumer education program in seven different languages, at a cost of \$7.1 million. This \$12.2 million program will require 29.5 new positions including 13 bilingual consumer affairs representatives.
- **Railroad Safety Fee.** AB 1801 proposes a fee increase of \$567,000 for 6 new positions for railroad inspectors to increase rail security and implement AB 1935 and AB 3023. These measures would require increased railroad yard inspections and require railroad operators to conduct risk assessments and implement protection programs. The California Rail industry is opposed to these additional positions as they feel they are unnecessary because the state and federal governments have already undertaken efforts to anticipate and be prepared for possible attacks on rail targets.
- **Tire Fee Extension.** AB 1801 proposes to maintain the tire fee at \$1.75 per tire by deleting the \$0.25 reduction in current law starting January 1, 2007. This is a retail fee on consumers when they purchase new tires. This would be a fee increase of approximately \$8.3 million per year. There would be a 6 month impact of approximately

\$4.2 million in 2006-07. However the purpose of the two-year fee of \$1.75 was to clean up legacy tire piles and that has been completed. The California Tire Recycling Fund has a balance of \$20 million, therefore the need to increase fees is not justified. Trailer bill language is proposed to implement the fee increase.

- **Oil Industry Fee.** AB 1801 proposes an increase of \$177,000 for two new inspector positions for Kern County to regulate oil and gas extractions. The Department of Conservation did not request these positions. These positions were in addition to the four positions that were requested as part of the Governor's budget which did not require a fee increase.

State Flood Control Subvention Program. Existing law regulates state participation in federal flood control projects, and state authorization is required before a local government project sponsor may receive reimbursement from the state for its share of the project costs. The federal government pays a maximum of 65 percent of the project costs. State law requires that of the remaining non-federal share of the total project costs, the state pays 50 percent and the local government pay 50 percent, unless the project meets specific criteria, in which the state can increase the cost share up to 70 percent (AB 1147, Chapter 1071, Statutes of 2000). For projects authorized before January 1, 2002, the state share for the project costs is 70 percent and the local agency is 30 percent.

Currently, the state has approximately \$168 million in claims from local governments for state authorized flood control projects. The amount is estimated to increase to \$250 million by the end of the 2005-06 fiscal year. The overall state share for these projects is estimated at \$655 million. AB 1801 proposes \$100 million in General Fund towards the payment of current claims in the order the claims have been received.

It should be noted that AB 1801 ***gives priority to the Napa County Flood Control and Water Conservation District*** to process \$10 million in claims putting this county ahead of others. The priority shall apply to 2006-07 in recognition of extensive flood damage that occurred in January 2006.

Flood Management Activities. AB 1801 proposes \$20.7 million in General Fund for the second year of a three-year program to phase in additional funding to support the department's flood management activities. The majority of the funding supports flood management activities in the Central Valley. The activities include; flood project maintenance, system reevaluation and rehabilitation, emergency response, and floodplain management.

CALFED Bay-Delta Program. AB 1801 provides \$250 million in state funds for the CALFED Bay-Delta Program and a reorganization of the California Bay-Delta Authority (Authority). The Administration undertook a comprehensive program, fiscal, and governance review of the CALFED Bay-Delta Program which found deficiencies in the program and in its governance. The Administration also released a 10-year plan that proposes further study and reorganization. AB 1801 includes a reorganization that is a mix of Administration and Legislative proposals. Specific programs and oversight have been placed within the Resources Agency, Department of Fish and Game, and the Department of Forestry and Fire Protection. This reorganization is an interim proposal until the Sacramento-San Joaquin Delta Strategic Plan is completed. It estimated to take approximately one-year to implement the reorganization, therefore, it is unclear how productive an interim reorganization will be to

improve accountability and achieve the CALFED goals of improving water quality and wildlife habitat, increasing water supply, and reducing flooding risks from levees.

Climate Change. AB 1801 proposes to fund \$36.9 million of activities to reduce greenhouse gas emissions. The Motor Vehicle Account provides \$34.3 million of the funding including \$31.5 million for various incentive programs for clean alternative fuels development, zero emission and partially zero emission vehicle program, and Hydrogen Highway. AB 1801 funds Climate Change with \$21.7 million more in funding than was requested by the Administration. The Air Resources Board will be allowed to expend funds for preliminary work to implement an emissions inventory and begin development of a **mandatory** emissions reporting system. Most of the details of how the Climate Change Initiative will be implemented are supposed to be provided in AB 32.

Parks and Recreation Deferred Maintenance. AB 1801 proposes \$250 million General Fund for the deferred maintenance repair costs at state parks. This proposal is \$240 million above the Administration's proposal of \$10 million. However, the Administration is only showing expenditures of \$90 million in the 2006-07 budget year because the Department of Parks and Recreation will not be able to expend the full amount.

All-American and Coachella Canals. AB 1801 proposes \$84 million General Fund for the lining of the All-American and Coachella canals. These funds are to reimburse local agencies for the canal lining and other projects that will help the state live within its Colorado River water allocation. Lining of the canals is anticipated to reduce the amount of water that is absorbed into the ground, thereby increasing the supply of water by about 100,000 acre feet.

Statewide Issues

State Teachers Retirement System (STRS). AB 1801 includes savings of \$121.5 million General Fund to account for an error that was recently discovered in STRS' accounting system. The error resulted in the state overpaying the 1990 Benefits Funding in 2004-05 and 2005-06. The amendment authorizes the state to reduce the General Fund contribution transfer in 2006-07 to reflect the previous overpayment.

Augmentation for Employee Compensation. AB 1801 includes \$560 million (\$353 million General Fund) to fund contractually-obligated pay raises for 6 of the 21 state employee bargaining units. Many of the bargaining units are either working under an expired contract or have contracts that will expire June 30, 2006, and any additional funding needed for future agreements would have to come from the state's General Fund reserve.

Additionally, included in the \$560 million is \$30 million that the Legislature included for the Administration to address recruitment and retention issues within the Department of Forestry and Fire and the Department of Fish and Game. The Administration is required to notify the Joint Legislative Budget Committee its plan for expending the \$30 million, to include department, employee classification and action taken.

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